

# Audit

# Report



OFFICE OF THE INSPECTOR GENERAL

**AWARD OF THE SOLE SOURCE BUSINESS  
PROCESS REENGINEERING CONTRACT**

Report No. 97-001

October 3, 1996

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October 3, 1996

**MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY**

**SUBJECT: Audit Report on Award of the Sole Source Business Process Reengineering Contract (Report No. 97-001)**

We are providing this audit report for information and use. We considered comments on a draft of this report in preparing the final report.

Management comments on the finding conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Although we added a recommendation to the report, the Army has already agreed to implement the recommended action. Therefore, additional comments are not required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Ms. Mary Lu Ugone, Audit Program Director, at (703) 604-9529 (DSN 664-9529) or Mr. James Hutchinson, Audit Project Manager, at (703) 604-9530 (DSN 664-9530). See Appendix E for the report distribution. The audit team members are listed inside the back cover.

Robert J. Lieberman  
Assistant Inspector General  
for Auditing

## **Office of the Inspector General, DoD**

**Report No. 97-001**  
(Project No. 6RE-5048)

**October 3, 1996**

### **Award of the Sole Source Business Process Reengineering Contract**

#### **Executive Summary**

**Introduction.** DoD organizations contract for a wide range of automated data processing technical support services, including business process reengineering, to support DoD Information Resource Management initiatives. Those initiatives are part of the Corporate Information Management Program implemented by the Secretary of Defense on November 16, 1990. One contract that provides the technical support services is the Corporate Information Management contract, MDA903-91-D-0061, awarded to the Systems Research Applications Corporation in September 1991. The contract expired on September 17, 1996. The Defense Supply Service-Washington, Department of the Army, planned to award a sole source contract (hereafter referred to as the sole source bridge contract) in October 1996. The sole source bridge contract is an interim contract to continue acquisition of business process reengineering services until a new competitive contract is awarded. We provided a draft of this report as a quick-reaction report to alert management that other DoD contracts providing comparable services are available at potentially better rates.

**Objective.** The audit objective was to evaluate the planned award of a sole source bridge contract for business process reengineering services. A separate report will be issued that discusses whether the Defense Supply Service-Washington administered contract MDA903-91-D-0061, competitively awarded to the same contractor, in compliance with the Federal Acquisition Regulation. The follow-on report will also discuss management controls.

**Audit Results.** The Defense Supply Service-Washington planned to award a \$45 million, sole source bridge contract to continue the acquisition of business process reengineering services. As a result, the Defense Supply Service-Washington was limiting competition for those services.

**Summary of Recommendations.** We recommend that the Commander, Defense Supply Service-Washington, evaluate the rate structures of other contracts for comparable services and negotiate an equal or better rate structure for the sole source bridge contract or stop all actions to issue a contract to the Systems Research Applications Corporation and use other contracts to obtain those services. We also recommend that the Defense Supply Service-Washington establish controls to limit new program starts on the bridge contract.

The recommendation should result in monetary benefits, but we could not quantify the amounts, which are dependent on future review results and associated management decisions.

**Management Comments.** As a result of discussions held with management following issuance of the draft report, the Defense Supply Service-Washington agreed to limit use of the bridge contract to business process reengineering services. The Defense Supply Service-Washington also agreed to establish procedures to limit new requirements. The Army concurred with the recommendation to evaluate rate structures on other contracts, stating that its analysis showed that labor rates for business process reengineering services proposed by the Systems Research and Applications Corporation for the bridge contract appear to be significantly lower than the rates in the Defense Enterprise Integration Services II contract, another contract that also provides the needed services. See Part I for a summary of management comments and Part III for the complete text of the comments.

**Audit Response.** The management comments and agreed-upon actions were responsive. Although we added a recommendation to the report to limit new requirements on the bridge contract, as discussed above, the Defense Supply Service-Washington has already agreed to that action. Therefore, no additional comments are required.

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## **Part I - Audit Results**

### Audit Background

DoD organizations contract for a wide range of automated data processing technical support services to support DoD Information Resource Management initiatives. Those initiatives are part of the Corporate Information Management Program implemented by the Secretary of Defense on November 16, 1990.

**Corporate Information Management Program.** The Corporate Information Management Program is a strategic, collaborative management initiative to improve business processes and the effective application of information technology across DoD functional areas. A goal of the program is to reengineer DoD functional processes to achieve greater mission effectiveness at lower cost.

**Corporate Information Management Program Contract.** The Defense Supply Service-Washington, an executive agency under the Department of the Army, provides contracting services to the Office of the Secretary of Defense. On September 18, 1991, the Defense Supply Service-Washington, competitively awarded contract MDA903-91-D-0061 to the Systems Research Applications Corporation. The contract provides automated data processing technical support services, such as business process improvement, for the Offices of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) and the Assistant Secretary of Defense (Health Affairs). Contract type, period of performance, and value are as follows:

- o type: cost-plus-fixed-fee;
- o period of performance: 1 year plus 4 option years; and
- o maximum value: \$7,885,638 per contract period (about \$39 million in total).

Contract administration is the responsibility of the Defense Contract Management Command-Baltimore. See Appendix B for a discussion of contract administration.

The original contract team consisted of the prime contractor and three subcontractors. However, as of July 1996, the number of approved subcontractors increased to 75. The contract scope of work is divided into four task areas: Program Management, Information Resource Management Program, Information Requirements, and Total System Quality Management. Examples of services included in the scope of work include strategic planning, documentation, analyses, prototypes, adapting new technologies to system requirements, and operational testing of systems. A detailed description of the four task areas is in Appendix C. Individual delivery orders define the contract services and pricing of requirements issued against the contract. As of July 16, 1996, the Defense Supply Service-Washington had issued 250 delivery orders.



**Contracting for Business Process Reengineering Services.** Because contract MDA903-91-D-0061 expired on September 17, 1996, DoD users need to acquire business process improvement services, now known as business process reengineering services, from other contracts. In a memorandum dated June 13, 1996, the Deputy Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) defines business process reengineering as the use of improvement tools and techniques to redesign DoD processes and organizations. Improvements may be either instantaneous or incremental. Examples of business process reengineering services include strategic planning, activity and data modeling, development of functional economic analyses, and development of improvement tools. The definition specifically excludes prototyping and migration systems implementation, research, and routine management of a function or process.

The Offices of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) and the Assistant Secretary of Defense (Health Affairs) each plan to award contracts for the acquisition of business process reengineering services.

**Approval to Award a Sole Source Contract.** In a memorandum dated May 21, 1996, the Office of the Assistant Secretary of Defense (Health Affairs) requested authority from the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) to award a sole source contract (hereafter referred to as the sole source bridge contract) to Systems Research and Applications Corporation. The sole source bridge contract is an interim contract to continue acquisition of business process reengineering services until a new competitive contract is awarded. The memorandum requesting authority to award the bridge contract emphasized the need to execute business process reengineering requirements in the period following the expiration of contract MDA903-91-D-0061 and the award of the follow-on Strategic Business Process Reengineering contract, solicitation DASW01-96-R-0067. The Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) approved the request for the sole source bridge contract on June 7, 1996.

**Strategic Business Process Reengineering Contract.** The Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) plans to competitively award a follow-on contract to provide business process reengineering services for the DoD. The Strategic Business Process Reengineering contract will provide DoD organizations with strategic planning, workshops, data standardization, tools, integration, and implementation planning support. Planned for award in FY 1997, the new contract has a period of performance of 1 base year and 4 option years.

## Audit Objectives

The audit objective was to evaluate the planned award of a sole source bridge contract for business process reengineering services to the Systems Research

## **Audit Results**

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Applications Corporation. We will discuss the management of contract MDA903-91-D-0061 by the Defense Supply Service-Washington in a separate report. The follow-on report will also discuss management controls. See Appendix A for a discussion of the audit scope and methodology.

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## **Award of the Sole Source Business Process Reengineering Contract**

The Defense Supply Service-Washington planned to award a \$45 million sole source bridge contract in October 1996 to obtain business process improvement services for the DoD.

The sole source award was planned because the Defense Supply Service-Washington wants to continue obtaining services from the Corporate Information Management Program contract rather than use other available DoD contracts.

As a result, the Defense Supply Service-Washington was limiting competition for \$45 million in services.

### **Acquisition Planning**

Federal Acquisition Regulation policy states that agencies shall perform acquisition planning for all acquisitions to promote and provide for full and open competition. The Regulation also prescribes policies and procedures for sole source contracting. Sole source contracting is permitted when only one responsible source and no other supplies or services will satisfy agency requirements. However, contracting without providing for full and open competition cannot be justified on the basis of a lack of advance planning by the requiring organization or concerns related to the amount of funds available.

### **Proposed Sole Source Bridge Contract**

In October 1996, the Defense Supply Service-Washington plans to award a sole source bridge contract to Systems Research Applications Corporation, whose existing contract expired on September 17, 1996.

**Sole Source Justification.** The Offices of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) and the Assistant Secretary of Defense (Health Affairs) prepared a Justification and Approval for Other Than Full and Open Competition (Justification and Approval) in April 1996. The Justification and Approval cites United States Code, title 10,

## **Award of the Business Process Reengineering Contract**

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section 2304(c)(1), as its statutory authority. Among other provisions, that section allows the head of an agency to use other than competitive procedures when

... the property or services needed by the agency are available from only one responsible source or only from a limited number of responsible sources and no other type of property or service will satisfy the needs of the agency.

According to the Justification and Approval, the incumbent contractor has put together a team that provides unique services. The Justification and Approval also states that there is a practical need to keep this team available to ensure continuity of service and to provide the most cost-effective support while the follow-on contract is competed. Further, the Government will incur unacceptable delays for at least 6 months in fulfilling business process improvement requirements if the award of a short-term contract goes to other than the incumbent.

**Contract Value, Term, and Scope.** The Defense Supply Service-Washington plans to award the sole source bridge contract in October 1996. With a value of about \$45 million, the contract period of performance includes a 3-month base period and two, 3-month options. The Justification and Approval for the proposed contract indicates that the contractor will provide all support services currently provided under the Corporate Information Management Program contract.

## **Increased Demand for Contract Services**

The Defense Supply Service-Washington awarded contract MDA903-91-D-0061 on September 18, 1991, and has exercised all four option periods on the contract. The final option expired on September 17, 1996. Because demand for services was greater than anticipated, the Defense Supply Service-Washington also modified the contract three times to increase its value. The effect of the modifications was to noncompetitively increase the contract value from about \$39 million to about \$309 million, a total of \$270 million. Table 1 shows modification dates and values.

## Award of the Business Process Reengineering Contract

**Table 1. Contract MDA903-91-D-0061 Growth in Level of Effort**

<u>Contract Year</u>	<u>Contract Action, Date, and Value (maximum)</u>			
	<u>Contract Modification Number</u>			
	<u>Award</u> <u>9/18/1991</u>	<u>P00003</u> <u>5/15/1992</u>	<u>P00005</u> <u>9/16/1993</u>	<u>P00012</u> <u>6/18/1996</u>
Base Year	\$ 7,885,638	\$ 31,869,803	\$ 31,869,803	\$ 31,869,803
Option One	7,885,638	49,666,892	59,664,969	59,664,969
Option Two	7,885,638	7,885,638	94,999,661	94,999,661
Option Three	7,885,638	7,885,638	49,999,440	49,999,440
Option Four	<u>7,885,638</u>	<u>7,885,638</u>	<u>29,999,559</u>	<u>71,999,559</u>
<b>Total</b>	<b>\$39,428,190</b>	<b>\$105,193,609</b>	<b>\$266,533,432</b>	<b>\$308,533,432</b>

The increases in contract value have continued despite an opinion in May 1993 by the Chief Attorney, Defense Supply Service-Washington, that it was not reasonable to increase the value of the contract 10 fold, considering that the contract was awarded at \$39 million. The plan to award the sole source bridge contract not only continues the trend of acquiring noncompetitive services from the Systems Research Applications Corporation, but also may not adequately consider alternative sources.

### Availability of Alternative Contracts

The Offices of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) and the Assistant Secretary of Defense (Health Affairs) prepared an Analysis of Alternatives, April 1996, for the bridge contract. Although the analysis concluded that all 11 sources evaluated as alternatives to the sole source bridge contract were unacceptable, we believe at least one source could provide the required business process reengineering services. In addition, the alternative source may be more cost-effective than the sole source bridge contract.

**Defense Enterprise Integration Services II Contract.** One alternative contract deemed unacceptable by the Analysis of Alternatives is the Defense Enterprise Integration Services II contract awarded by the Defense Information Systems Agency. The primary reason the Defense Enterprise Integration Services II contract was deemed not acceptable is that it does not contain all the required contractors. To determine the validity of that determination, we obtained and compared lists of contractors and subcontractors from contract MDA903-91-D-0061 and the Defense Enterprise Integration Services II Contract.

Our analysis showed that the contract has 1 prime contractor (Systems Research Applications Corporation) and 75 subcontractors. The Defense Enterprise

## Award of the Business Process Reengineering Contract

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Integration Services II contract, awarded July 2, 1996, with a 5-year value of about \$2.5 billion, has 6 prime contractors and 245 subcontractors available to provide technical integration support services throughout the DoD. Included in the 245 subcontractors are the Systems Research Applications Corporation and 23, about 31 percent, of its current subcontractors. In addition, the Defense Enterprise Integration Services II contract contains a specific task area for business process reengineering and functional process improvement.

**Contract Cost.** We compared the contract MDA903-91-D-0061 labor categories and rates to those on the Defense Enterprise Integration Services II contract. To determine the comparability of costs, we judgmentally selected three delivery orders from contract MDA903-91-D-0061 and recalculated the costs of the delivery orders based on the rates of comparable labor categories in the Defense Enterprise Integration Services II contract. We used the average labor rates of the six prime contractors available from the Defense Enterprise Integration Services II contract. The criteria we used to select the delivery orders were cost and award dates. Specifically, the selected delivery orders cost about \$140,000; \$500,000; and \$1.7 million. All the delivery order award dates were subsequent to the award of the Defense Enterprise Integration Services II contract. The results of our comparison are shown in Table 2.

**Table 2. Comparison of Delivery Order Costs**

<u>Contractor</u>	<u>Delivery Order Number</u>			
	<u>249</u>	<u>248</u>	<u>243</u>	<u>Total</u>
SRA <sup>1</sup>	\$139,590	\$500,762	\$1,716,364	\$2,356,716
DEIS <sup>2</sup>	<u>137,623</u>	<u>463,459</u>	<u>1,060,860</u>	<u>1,661,942</u>
<b>Difference</b>	<b>\$ 1,967</b>	<b>\$ 37,303</b>	<b>\$ 655,504</b>	<b>\$ 694,774</b>

<sup>1</sup>Systems Research Applications Corporation

<sup>2</sup>Defense Enterprise Integration Services II

The results of our comparison are an indicator that the Government could obtain services more cost-effectively by using alternatives to the Corporate Information Management Program contract.

## Conclusion

In 1993, the Defense Supply Service-Washington knew that the value of contract MDA903-91-D-0061 had increased nearly tenfold as a result of contract modifications. Awarding a \$45 million, sole source bridge contract to the Systems Research Application Corporation only continues the trend of acquiring services noncompetitively. As evidenced in the recently awarded

## **Award of the Business Process Reengineering Contract**

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Defense Enterprise Integration Services II contract, expertise of the Systems Research Applications Corporation and its subcontractors is not unique, and other contractors can perform similar work for less cost.

However, if the sole source bridge contract is to be used until a fully competitive solicitation can be awarded, we believe that contract award should proceed only if the Defense Supply Service-Washington negotiates rates for its customers that are equal to or better than those available on other recently issued contracts for business process reengineering services. If competitive rates cannot be negotiated then, the Defense Supply Service-Washington should discontinue efforts to award the sole source bridge contract and use other contracts to obtain those services.

### **Recommendation, Management Comments, and Audit Response**

**Added Recommendation.** After the draft report was issued on August 23, 1996, we met with representatives of the Defense Supply Service-Washington. Management agreed that the sole source bridge contract will be limited to business process reengineering services as defined by the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence). Management also agreed that new requirements will be added to the sole source bridge contract only on an authorized basis. As a result, we added Recommendation 2, which limits new requirements on the sole source bridge contract.

**We recommend that the Commander, Defense Supply Service-Washington:**

- 1. Evaluate the rate structures of other contracts for comparable services and negotiate an equal or better rate structure for the sole source bridge contract, or stop all actions to issue a sole source bridge contract to the Systems Research Applications Corporation and use other contracts to obtain those services.**

- 2. Establish procedures to limit new requirements on the sole source bridge contract.**

**Management Comments.** The Army concurred, stating that its analysis showed that labor rates for business process reengineering services proposed by Systems Research and Applications Corporation for the bridge contract are significantly lower than the rates in the Defense Enterprise Integration Services II contract. Additionally, the \$45 million ceiling for the bridge contract will be funded as \$15 million each for the 3-month base and two, 3-month option periods. The Army also stated that the bridge contract will be limited to business process reengineering services and that no new requirements will be added without specific authorization.

## **Award of the Business Process Reengineering Contract**

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**Audit Response.** Management actions are responsive. Because the Defense Supply Service-Washington has already agreed to limit new requirements on the bridge contract, no additional comments are required.



## **Part II - Additional Information**

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## **Appendix A. Audit Process**

### **Scope**

**Contract for Business Process Reengineering Services.** We reviewed the management of the contract awarded to the Systems Research Applications Corporation. Specifically, we examined documentation dated from May 1990 through August 1996 related to the award of contract MDA903-91-D-0061 in September 1991 and to the proposed award of the sole source bridge contract planned for October 1996.

### **Methodology**

**Acquisition Planning.** We reviewed policy and guidance on acquisition planning in the Federal Acquisition Regulation, October 1, 1995. Specifically, we compared Defense Supply Service-Washington procedures for awarding contracts using other than full and open competition to the policy in the Federal Acquisition Regulation.

**Use of Computer-Processed Data and Statistical Sampling.** We used computer-processed data in analyzing the modifications to contract MDA903-91-D-0061 with the Systems Research Applications Corporation. Because of time sensitivity, we were able to perform only a limited assessment of the reliability of the data. However, we concluded that the computer-processed data were sufficiently adequate to be used in meeting the audit objective. We judgmentally selected delivery orders dated July 15, and July 16, 1996, for analysis, primarily based on dollar value and number of modifications.

**Audit Period, Standards, and Locations.** We performed this program audit from July through August 1996 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Appendix D lists the organizations we visited or contacted.

### **Summary of Prior Audits and Other Reviews**

There has been no prior audit coverage of the Corporate Information Management Program contract MDA903-91-D-0061 within the last 5 years.

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## **Appendix B. Other Matters of Interest**

### **Contract Administration**

The Defense Contract Management Command-Baltimore is designated to perform contract administration duties in accordance with the Federal Acquisition Regulation. One of the duties of the contract administration office is to perform administrative office closeout procedures. Closeout procedures include verification that the products and services described in the contract have been received by the Government.

The Defense Contract Management Command did not initiate verification of receipt of contracted products and services until June 1996. After having determined that the period of performance had expired on 170 delivery orders, the Defense Contract Management Command forwarded a request to the contracting officer, the Defense Supply Service-Washington, on June 10, 1996, to verify receipt of the products and services listed for the delivery orders. As of August 9, 1996, the contracting officer had not responded to the request. We plan to issue a separate report discussing contract management and administration issues.

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## Appendix C. Contract Scope of Work

Contract MDA903-91-D-0061 states that the contractor shall furnish the necessary personnel, materials, facilities, travel, and other services required to provide a broad range of automated data processing technical support services to support the Information Resource Management requirements of the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) and the Assistant Secretary of Defense (Health Affairs). The scope of contract MDA903-91-D-0061, section C-2, is divided into the following four task areas.

**Task Area 1-Program Management.** The contractor shall provide all services to effectively plan for, perform, and manage the activities delineated in the contract. Under the terms of this task area, the contractor shall provide a Contract Management Plan, Task Order Management Plan, development and updating of management analysis and planning deliverables, status reports, cost reports, and training as required.

**Task Area 2-Corporate Information Management Information Resource Management Program.** The contractor shall provide technical support, which includes, but is not limited to, the development of a strategic planning concept, the development of planning documentation and other material, the review of component plans and programs, the development of information resource management guidelines, the conduct of functional and technical architectural analyses and studies, the development of architectural migration plans in accordance with strategic plans, the support of a pilot or prototype application data base program, and the maintenance of the architecture and data base baselines using the principles of configuration management.

**Task Area 3-Corporate Information Management Information Requirements.** The contractor shall support the development and validation of Corporate Information Management information requirements, and the development of requirements documentation including, but not limited to, Concepts of Operation, Summary Functional Requirements, and Functional Descriptions; and other Life Cycle Management documentation.

**Task Area 4-Corporate Information Management Total System Quality Management.** The contractor shall support the verification, validation, system quality assurance and quality control, and testing activities for the Corporate Information Management Program. The contractor shall support the procedures of evaluating systems products and tracing requirements through life cycle, and evaluating software to ensure compliance with requirements. The contractor shall review the existing relevant Government policies, processes, and standards; make improvement recommendations; and implement corrective actions as directed. The contractor shall review submitted life cycle documentation for correctness and completeness, and provide comments to the Government. The contractor shall support the functional proponents to create or revise documentation to meet standards. The contractor shall support the development, maintenance, and operation of a systems quality assurance and system

quality control program for systems. The contractor shall provide technical support to include, but not limited to, the definitions and implementation of systems quality assurance and system quality control policies, procedures, and standards. The contractor shall support the definition of technical alternatives which potentially reduce program risk. The contractor shall evaluate state-of-the-art technologies for their applicability and adaptability to the health care needs of the Military Departments, and evaluate new systems and approaches for application to the medical and hospital information systems needed by the Military Departments. The contractor shall support developmental and operational testing and evaluation as required. The contractor shall support the management control program by preparing required documentation in accordance with applicable DoD Instructions.

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## **Appendix D. Organizations Visited or Contacted**

### **Office of the Secretary of Defense**

Assistant Secretary of Defense (Command, Control, Communications and Intelligence),  
Washington, DC

Assistant Secretary of Defense (Health Affairs), Washington, DC

### **Department of the Army**

Defense Supply Service-Washington, Washington, DC

### **Defense Agencies**

Defense Information Systems Agency, Arlington, VA

Defense Logistics Agency

Defense Contract Management Command, Baltimore, MD

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Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)  
Assistant Secretary of Defense (Health Affairs)  
Assistant to the Secretary of Defense (Public Affairs)  
Director, Defense Logistics Studies Information Exchange

### **Department of the Army**

Commander, Defense Supply Service-Washington  
Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Auditor General, Department of the Navy

### **Department of the Air Force**

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House Committee on National Security



## **Part III - Management Comments**

# Department of the Army Comments



DEPARTMENT OF THE ARMY  
ADMINISTRATIVE ASSISTANT TO THE SECRETARY  
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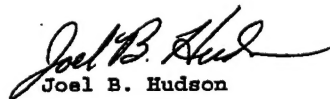


17 September 1996

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Quick-Reaction Report on Award of the Sole Source  
Business Process Reengineering Contract  
(Project No. 6RE-5048)

The subject report has been reviewed and concurrence is given to the recommendation. The loaded labor rates for business process reengineering services proposed by Systems Research and Application (SRA) for the bridge contract appear to be significantly lower than the rates in the Defense Enterprise Integration Services II contract. The Defense Supply Service-Washington will issue a bridge contract to SRA and this contract will be used only for business process reengineering services. No new program starts will be issued under the bridge contract without the approval of the Delegation of Procurement Authority authorized official.

  
Joel B. Hudson

## **Audit Team Members**

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